WAYS TO DIVERSIFY LOCAL BUDGET REVENUES

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English: This article analyzes ways and mechanisms for diversifying local budget revenues based on Uzbekistan's experience and international practice.

Keywords: local budget, revenue diversification, fiscal autonomy, local taxes, property tax, budget stability, decentralized finance, regional development, fiscal capacity, budget potential

Local budget revenue diversification constitutes a critical determinant of fiscal autonomy, administrative effectiveness, and sustainable regional development in decentralized governance systems. Uzbekistan's ongoing fiscal decentralization reforms, initiated through Presidential Decree PF-6224 (April 2021), aim to strengthen local government financial independence and enhance service delivery capacity. However, empirical evidence reveals severe structural imbalances: local budgets' own-source revenues comprise merely 31.6% of total revenues (28.3 trillion UZS), while centralized intergovernmental transfers dominate at 68.4% (61.4 trillion UZS) as of 2024. Revenue concentration measured by Herfindahl-Hirschman Index reaches 0.547, indicating high dependence on limited sources - income tax (47.8%) and property tax (18.6%) collectively account for 66.4% of own revenues.

The research employs mixed-methods approach integrating quantitative empirical analysis, comparative case studies, and policy simulation. Quantitative methods include descriptive statistical analysis of revenue composition examining temporal trends, regional variations, and structural shifts using Ministry of Finance local budget reports and State Statistics Committee data for 2020-2024; concentration measurement through HHI calculation (HHI = Σs_i^2 where s_i represents each source's share) applied to own-source revenues and overall revenue portfolios, with decomposition identifying concentration drivers; panel regression analysis investigating determinants of own-source revenue performance controlling for economic development (GRP per capita), demographic factors (population, urbanization), and institutional variables (fiscal capacity index, administrative efficiency); and fiscal gap analysis quantifying difference between expenditure needs and available revenues, identifying resource shortfalls requiring diversification. Qualitative methods encompass comparative case study analysis examining institutional arrangements, tax policy frameworks, and implementation processes in four benchmark countries selected for relevance to transition economy contexts; stakeholder consultation through semi-structured

interviews with regional finance departments, local government officials, and fiscal policy experts (n=23) identifying implementation constraints and reform priorities; and policy document review analyzing legal frameworks, presidential decrees, government resolutions, and strategic plans defining fiscal decentralization trajectory. Forecasting employs scenario modeling projecting revenue outcomes under baseline (current trends continuation), moderate reform (selective diversification measures), and comprehensive reform (full strategy implementation) scenarios through 2030, with sensitivity analysis testing robustness to key assumptions.

First, severe revenue concentration characterizes Uzbekistan's local budgets with HHI of 0.547 indicating high vulnerability, excessive transfer dependence at 68.4% limiting autonomy, and income tax dominance at 47.8% creating procyclical revenue patterns. Regional analysis reveals dramatic disparities: Tashkent city achieves 62.4% own-source revenue share with HHI of 0.268 (high diversification) leveraging economic concentration, while Surkhandarya region suffers 18.7% own-source share and HHI of 0.584 (severe concentration) with 81.3% transfer dependence. Second, international benchmarking demonstrates that successful systems maintain own-source revenues at 45-65% of total with diversified portfolios (HHI 0.24-0.28): Poland achieves 52% own-source share and HHI 0.267 through broad-based property taxation, local business levies, and asset revenues; Czech Republic reaches 58% and HHI 0.284 via comprehensive income tax sharing, property taxes, and economic activity levies; South Korea attains 63% and HHI 0.243 through property tax (28.4%), local consumption tax (24.7%), and specific local taxes (18.6%); Japan maintains 45% and HHI 0.259 balancing local income tax, property levies, and corporate contributions. Third, substantial untapped revenue potential exists across multiple categories: property tax reform through market-based valuation, expanded coverage of commercial and industrial property, progressive rate structures, and exemption rationalization could increase revenues from 5.3 to 12-14 trillion UZS by 2030 (2.3-2.6x growth); local economic activity taxation including simplified business tax (1-3% on turnover), service provision levies (hotels, restaurants 3-5%), advertising tax (5-10%), and vehicle use fees could generate 5-7 trillion UZS annually; user fees and charges expansion achieving full cost recovery for utilities, introducing infrastructure development fees, implementing parking and congestion charges, and indexing fee schedules could raise revenues from 1.8 to 4.5-5.5 trillion UZS; public asset monetization through efficient leasing of municipal property, dividend optimization from local enterprises, land disposition programs, and PPP arrangements could increase from 1.8 to 5-6 trillion UZS; and digital collection technologies reducing evasion and improving compliance efficiency could enhance yields by 15-20% across all sources.

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